



Country: Australia. Information Technology

IT Distribution Channel

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Summary

Main features of the Australian IT distribution channel include:

- Australia is a much smaller than the U.S. market – for example, for a global company like IBM, Australia accounts for approximately two percent of total group revenue.
- U.S. vendors need to adjust their expectations of how much revenue will be generated, the margins that partners will ask for, and general support that partners will want in order to introduce a new product into the local market.
- Some distributors/resellers in the local channel are of comparable size (employees and turnover) to companies in the U.S. channel, but the majority are much smaller.
- The channel is quite fragmented and characterized by small, specialist resellers.
- Most resellers are looking to take on products around which they can bundle their own services, thereby increasing the revenues they generate.
- Resellers/distributors are looking for cutting edge products to sell to the market.
- The geographic size of Australia combined with a population of 20 million, means that the distribution model must overcome “the tyranny of distance” to optimize market access.

Market Overview

The Australian ICT market is valued at approximately US\$65 billion, and accounts for eight percent of Gross Domestic Production (GDP). The market is growing at a rate of six percent annually.

Australia is a great place to do business, and is a favored destination for North American exports due to the following:

- English is the main spoken language. Localization of brochures/literature and advertising materials is not often required.
- Australians are early adopters of high-tech equipment and technologies. They are sophisticated, experienced and discerning in relation to the quality of the product/service.

- Business practices and processes in the finance/insurance, telecommunications, retail, manufacturing and mining industries are similar to that employed in the U.S. As such, local end-users have a high-level of comfort with U.S. IT companies' products and their solutions can be more easily sold and implemented in the local market than in other parts of the world.
- In terms of population, Australia is small enough to generate market data/sales figures in a timely fashion. Coupled with the fact that market is IT-savvy, this makes Australia an ideal location to test new products and distribution strategies.
- Americans feel comfortable dealing with the Australian business community, as do Australians in dealing with U.S. companies.
- Many U.S. ICT companies have been in the market for years (for example, IBM, Cisco, NCR, Microsoft, CSC etc). In certain cases, U.S.-based ICT companies enter the local market through partnerships and alliances already forged with these companies from the U.S. and other parts of the world.
- The Australian government system is transparent, the legal system is reliable, and intellectual property protection is robust.
- A rising Australian dollar makes importing U.S. products attractive.

Select The Right Distributor

It is always advisable to obtain expert, impartial advice on selecting the most suitable partner as well as the correct entry strategy for the Australian market.

This process is critical because:

- The costs involved with locating and setting up distribution in Australia are considerable. It is essential that the selection process be carried out thoroughly the first time around.
- Every year that a U.S. vendor stays in a relationship that is not maximizing revenue opportunities means forgoing a year's earnings in this ever-changing market.
- The costs and time involved in changing a distributor are significant. The company's reputation in the local market can also be irreparably damaged in the process.

Best Prospects

There are number of ways that U.S. vendors can locate local partners:

- Follow up with requests for product information that come from Australian distributors directly onto U.S. vendors' websites.
- Search the Internet for Australian ICT companies with the appropriate distribution/reseller skill sets.
- Meet Australian companies at trade shows either in the U.S. or abroad.
- Speak to local ICT associations and user groups. These groups can pass information on companies looking to find partners to their members. The Australian associations will have either a website or a newsletter that they distribute to their members with such information.
- Speak to a technology partner that is already distributing in the local market. Their local partners (through their channel manager) could help the U.S. company identify potential partners.
- U.S. ICT companies can approach their distribution partners in the U.S. It may be that they have a subsidiary in the local market and would be happy to represent the technology in the market.

For example, Ingram Micro has a subsidiary in Australia, and they may be interested in adding to their range of products they represent in the local market.

- Ascertain if competitors' products are sold in the local market and generate a list of all of their local representatives. In certain cases, through one reason or another (a competitor goes out of business or wants to sell direct), some of these may be looking to locate similar products from another supplier. They have the channel, end-user market and support process already in place. Additionally, it is beneficial to analyze competitors' "go-to-market" strategies in foreign markets, as they give good insight into how to enter different markets.
- Engage the support of a local consultant. Most consultants have a background of working in the industry for many years with large ICT companies as product and channel managers. They have an excellent knowledge of the local market, and key competitors, and may come armed with introductions to potential end-users. Consultants offer a range of services; generating market intelligence, locating local partners, advising on marketing strategies, acting as a master distributor and locating partners and ensuring that they are meeting quotas and following up on trade leads for a pre-agreed period, acting as the Australian subsidiary and subsequently, handing over the company to the U.S. parent to manage. Some have the facilities to provide back-end call center support in the region and bill according to the volume and duration of calls.

The Australian Channel

Success in the Australian ICT market depends, to a large degree, on how well U.S. vendors work with the local sales distribution channel. If local distributors don't receive prompt attention to their customers' inquiries, or if the U.S. vendors do not devote enough resources to assist in the promotion of the product, sales will never reach their full potential.

Listening to the needs of the local partner will ensure that a U.S. vendor's local business will be a success. If the partnership does not flourish, success in the local market may be short-lived and the damage to the relationship with local end-users may be irreparable.

Australian companies evaluate technologies and products to distribute in the local market based on certain set criteria:

Technology

Local companies look for the latest cutting-edge technologies to distribute and integrate. Australia is about 12 months behind America on the technology curve. Australian companies are constantly watching developments in the U.S. and trying to obtain an advantage on their local competitors by importing and supporting the latest technologies. Margins generated on cutting edge solutions are typically much better than on mature solutions. At the same time, the technology needs to be proven and implemented in the U.S. market. Local companies are not interested in being the first worldwide sales for an ultra-new solution.

Margins

Margin is the magic word in the local channel. Most distributors will ask for discounts of 40 points. Any less, and it becomes uneconomical to provide adequate marketing, sales, and support to promote the technology in the local market. Unlike in the U.S., where companies can generate significant revenue streams on the back of high volume/low margin selling, Australian distributors need to factor in higher margins as they will never sell the same volume as U.S. distributors. Accordingly, U.S. vendors need to adjust their expectations of what is considered a big order.

Exclusives

At the outset, most local companies will ask for exclusivity on a product, but it is unlikely that they will not enter into a relationship if not given that right. In some cases a vendor may set up a two-tier distribution strategy consisting of two or three principal distributors and a range of resellers and integrators underneath them. However, distribution agreements will depend on the product and the number of vertical channels in which it can be sold.

As a rule of thumb, it is preferable to opt at first for one or two non-exclusive distributors/resellers in the channel and monitor how sales progress.

Sign On Fees, Pre-Sales and Support Training

Many Australian companies report that U.S. vendors place unrealistic demands on them, by asking for sign on fees or exorbitant fees for marketing, sales and technical support training. It is important that U.S. companies are seen to be flexible and working with the potential partner. For example, instead of conducting all training in the U.S., provide online training or do a portion of the training in Australia. The costs of acquiring the skills to sell and support the U.S. product need to be balanced against the potential revenue streams that can be generated by sales of the solution.

Experienced International Managers

Many local companies are run by directors with many years of experience in the ICT industry. U.S. companies need to fill their international business development divisions with experienced professionals who can listen, be flexible and have the ability to make decisions on behalf of the company that reflect the nature of the local channel.

Proven Technology

In our experience, local companies want to partner with U.S. firms who have existing sales in America. Australians do not want to be the test cases for ultra-new technologies. Rather than try to introduce a new product to the American and the Australian markets at the same time, it is much better to start with the domestic market and at a later date focus on international sales.

End-Users

Retail Sales Channels

- There are only a handful of big retail dealers and they include, Harvey Norman, Dick Smith, Harris Technologies, Coles Myer, and Retravisio. These firms sell brand name computers, leading brand software and peripherals for PCs and Apple.
- None of the above companies are of a size or buying power of the large U.S. retailers such as CompUSA or Fry's.
- The big retailers will never buy direct, they have a large number of suppliers (over 2,000 in some cases), will expect to return shelf product, and are only interested in selling proven products that they can sell in large volumes.

Internet Sales Channels

At the end of the March quarter in 2007, there were approximately 6.43 million active internet subscribers in Australia according to the Australian Bureau of Statistics (ABS).

There were 761,000 businesses with Internet access, and 5.67 million household subscribers. Whilst not growing as fast as in previous years, the number of broadband subscribers increased by 16 percent between September 2006 and March 2007. Dial-up subscriber numbers decreased by 16 percent over the same period.

Australian Internet Subscribers March 2007

Broadband	4.34
Dial-Up	2.09
Total	6.43

Source: Australian Bureau Statistics

DSL is by far the most utilized broadband technology in the local market. Of the remaining, analysts predict that wireless delivery will grow the most over the next year.

Australian Broadband Technology Market

Technology	Market Share
xDSL	80%
Cable	16%
Wireless	3%
Satellite	1%
Other	0.03%

Source: Telesyte

Key Features:

- Approximately 9.2 million Australian adults access the internet (66 percent of the population), and 10 percent (1.3 million) of the population buy goods over the internet
- One of the leading online stores selling software and hardware is Harris Technology (www.ht.com.au).
- Australians have also become used to buying software, patches, and downloading trial versions of software direct from U.S. vendors' websites.

Multi-National Companies/Corporate Sales

In some cases, corporate headquarters can influence their local subsidiaries' IT purchasing decisions. If a U.S. vendor already sells its products to the head office, it is worth asking the contact at the company for the name of the IT purchasing officer in the local market. If the local contact evaluates and likes the product, he may be able to recommend your products to one of the distributors who sell to them.

Per the graph below from the Australian Bureau of Statistics, the Australian corporate market is categorized by a small number of very large companies with in excess of 50,000 employees each. There are about 150 companies with in excess of 10,000 employees each. Over 25,000 companies have less than 5,000 employees. This graph highlights the fact that the super large corporate market is very small. By contrast, the small-to-medium size (SMEs) market is very large.

Analysis on Size of Australian Companies

Number of Employees	Approximate Number of Companies
> 50,000	7
> 20,000	28
> 15,000	40
> 10,000	68
> 5,000	130
< 5,000	25,000

Source: Australian Bureau of Statistics

Educational Sales

The educational market is broken into two categories:

1. Schools, including primary and high schools – 1-12 and
2. Universities

The local academic market is very competitive and the process for having products evaluated for school syllabi is very rigorous and time consuming.

Australia is divided into six States and two territories (Queensland, New South Wales, Victoria, South Australia, Tasmania, and Western Australia), and (Northern Territory, and the Australian Capital Territory).

Syllabi for each age group of pupils are drafted at the State level. At the start of each year, each State will release information on what level of proficiency its students must reach by the end of any given subject.

Distributors conduct a road show of all the schools in each State at the start of the year and present their range of products. Schools then choose reference materials that reflect their syllabi.

Key to Success in the Education Market

- Partner with a local distributor with proven experience in selling educational titles.
- There are only a small number of distributors of educational titles in the local market.
- Educational titles will need to be localized to include Australian English spelling and Australian accents.

University Market

The federal government funds the majority of Australian universities. Only a handful of universities in Australia are privately run and funded. Every university makes its own buying decisions, and in most cases, the end-user will be the buyer and he/she will be the person who needs to be influenced by the sales pitch.

Multinational vendors such as HP, IBM and Cisco fund much of the research that is carried out in local universities. Existing partnerships that a U.S. vendor has with these companies in other markets can provide a nice introduction into the local market.

Government Market

- According to Gartner Group the Australian federal government spends over US\$7 billion on ICT products and services annually making it the biggest individual buyer in the local market.
- Sales cycles are typically very long
- The tender process can be very expensive
- Partner with a distributor who is certified to sell to the government and who has a wealth of experience with the tender process

Original Equipment Manufacturers

There are a small number of original equipment manufacturers (OEM) in the local market. They can be a great source of additional sales. Many are interested in bundling synergistic technologies with their solutions. PC vendors, for example are interested in evaluating graphics boards to be bundled with their monitors.

Types of Distributors

Master Distributor

Tier One Companies

- Includes a number of very large “time and place” distributors with revenues in excess of US\$400 million per annum. Companies include: Ingram Micro, and Tech Pacific.
- Have branches in all the key Australian States
- Distribute all the leading vendors’ products including Cisco, Microsoft, and HP
- Distribute high volume products
- Are not strong at providing marketing assistance
- Only distribute companies’ products that have a marketing presence in Australia

Tier Two Companies

- The top two-dozen distribution companies in this category generate revenues in the vicinity of US\$100 million.
- There are approximately 20 tier two distributors
- More focused on core product areas such as networking equipment, multimedia applications or desktop solutions
- Some have introduced a service solution component to their skill sets

Value-Added Distributors

- Companies that distribute through an established channel but also provide value-added solutions direct to end-users

Value-Added Resellers

- The bulk of the local ICT channel is made up of a very large number of VARs
- Small number of employees
- Most operate in niche markets are very specialized
- High degree of technical expertise

Market Issues & Obstacles

There are no tariffs on the importation of software and hardware into the Australian market.

In July 2000, Australia established a Goods and Services Tax (GST) which has replaced a range of hidden taxes. GST is a broad-based tax of ten percent on the supply of most goods and services consumed in Australia. It is akin to similar value-added tax systems in Canada and Europe.

The GST of ten percent is applied on the landed value of the software or hardware, and includes freight and insurance charges.

The Australian Communications and Media Authority (ACMA) www.acma.gov.au is empowered via the Telecommunications and Radiocommunications Acts to mandate technical standards relating to items of customer equipment, customer cabling and specified devices. The aim is to protect personal health and safety, facilitate access to emergency services, protect the integrity of public networks, enable interoperability of voice telephony services, and contain interference to and from a range of radiocommunications and non-radiocommunications devices.

Broadly, these standards include: Electronic Compatibility Arrangements (EMC), Electromagnetic Radiation Arrangements (EMR), Radiocommunications Regulatory Arrangements, Telecommunications Regulatory Arrangements, and Network Standards and Codes.

In the majority of instances international Standards are recognized in Australia, eliminating the necessity of re-testing.

For EMC compliance, international standards EN 55022 or CISPR 22 are recognized locally.

Some software such as switchless, software-based solutions for call and contact centers. that indirectly connect to the local telecommunications network require compliance with the local Telecommunications and Radiocommunications Act.

Responsibility for establishing and attesting to compliance, typically lies with the importer, manufacturer, their authorized agent, or in some cases the licensed operator of a device.

More information on Standards can be found at:

Standards Australia
11 The Crescent
Homebush NSW 2140 Australia
Tel: 61-2-9746 4700
Fax: 61-2-9746 8450
Website: www.standards.com.au

More information on the Telecommunications and Radiocommunications Act and the role that the ACMA has in its regulation can be found at:

Australian Communications and Media Authority
Level 15, Tower 1, Darling Park
201 Sussex Street
Sydney NSW 2000
Tel: 61 2 9334 7700
Website: www.acma.gov.au

Main Trade Event

Cebit Australia, 2009

Date: May 12-14, 2009

Location: Sydney Convention & Exhibition Center

Show Organizer: Hannover Fairs

Tel: 61-2-9280 3400

Fax: 61-2-9280 1977

Website: www.cebit.com.au

Resources & Contacts

Australian Reseller News
www.arnnet.com.au

For More Information

The U.S. Commercial Service in Australia can be contacted via e-mail at: duncan.archibald@mail.doc.gov;
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